

Message Text

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ACTION EB-08

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FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 9151
INFO AMEMBASSY ABU DHABI
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY DOHA

C O N F I D E N T I A L SECTION 01 OF 02 CAIRO 12926

E.O. 11652: GDS
TAGS: EFIN, EAID, IBRD, IMF, EG
SUBJ: STATUS OF IMF AGREEMENT, GODE NEGOTIATIONS AND
- IBRD-CG MEETING

SUMMARY: MINISTER OF ECONOMY HAMID EL SAYEH DISCUSSED
STATUS OF NEGOTIATIONS WITH IMF OVER EXTENDED FUND
FACILITY, AND PROSPECTS FOR HOLDING IBRD CG MEETING AS
SCHEDULED IN JUNE. EL SAYEH EXPRESSED STRONG CONFIDENCE
THAT GOE AND IMF WILL REACH AN ACCORD ON EXTENDED FUND
FACILITY. BASIC POINTS ARE ALREADY AGREED TO, ACCORDING
TO EL SAYEH. IMF TEAM RETURNS MAY 15 AND IMF'S SHAALAN
COMES BACK MAY 23 AND EL SAYEH EXPECTS MATTER TO BE
WRAPPED UP AT THAT TIME. IMMEDIATELY AFTER IMF AGREE-
MENT, GOE PLANS TO SEND MINISTERIAL DELEGATION TO GODE
MEMBER STATES TO DISCUSS 1978 BALANCE OF PAYMENTS GAP
AND NECESSARY FUNDING TO MEET IT. EL SAYEH SAID HE
FELT THAT IBRD IS NOW SUFFICIENTLY REASSURED ON ALL
THESE MATTERS THAT THEY WILL GO FORWARD WITH CONSULTA-
TIVE GROUP MEETING AS SCHEDULED. END SUMMARY.
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1. DURING COURSE OF MEETING OF AMBASSADOR WITH MINISTER
OF ECONOMY HAMID EL SAYEH TO DISCUSS AID BILATERAL AGREE-
MENT, EL SAYEH ALSO DESCRIBED CURRENT STATUS OF EGYPTIAN-
IMF NEGOTIATIONS AND PREPARATIONS FOR CG MEETING.

2. IMF TALKS: EL SAYEH SAID DURING IMF'S SHAALAN'S

LAST VISIT (SEE CAIRO 11909 - NOTAL) SHAALAN MET WITH MINISTRY INDUSTRY PERSONNEL TO REVIEW ACTUAL PRICE EFFECTS OCCURRING FROM DECISIONS ALREADY TAKEN BY GOE. GOE HAD EARLIER SHOWN IN THEIR BUDGET THAT PRICE CHANGES ALREADY PUT INTO EFFECT IN 1978 WOULD HAVE BUDGETARY EFFECT OF LE 115 MILLION DURING 1978. HOWEVER, MINISTRY OF INDUSTRY HAS RECALCULATED ESTIMATED PRICE EFFECTS OF ACTIONS TAKEN TO DATE AND ESTIMATE THAT ANNUAL IMPACT OF THESE DECISIONS WILL NOW RUN AT LE 200 MILLION A YEAR. IN HIS REVIEW, SHAALAN CONCLUDED THAT THE ANNUAL PRICE EFFECT WOULD BE APPROXIMATELY LE 160 MILLION. ACCORDING TO EL SAYEH, SHAALAN AND IMF ARE NOW SATISFIED THAT PRICE EFFECT OF ACTIONS TAKEN TO DATE ARE SUFFICIENT TO MEET IMF TARGETS FOR 1978 AND NO FURTHER STEPS ARE NEEDED.

3. EL SAYEH WENT ON TO SAY THAT IN GOE DISCUSSIONS WITH SHAALAN, IT HAD ALSO BEEN AGREED THAT LE 75 MILLION IN FURTHER PRICE ADJUSTMENTS SHOULD BE MADE DURING THE LAST HALF OF THE FIRST YEAR OF THE AGREEMENT PERIOD WITH IMF, I.E., PRICE CHANGES WOULD TAKE PLACE AROUND MAY OR JUNE OF 1979. FURTHER, IT HAS BEEN AGREED THAT ADDITIONAL PRICE CHANGES OF LE 75 MILLION WOULD OCCUR SOME TIME DURING THE FIRST SIX MONTHS OF THE SECOND YEAR OF THE AGREEMENT, I.E., SOME TIME BETWEEN JULY AND DECEMBER, 1979. IT IS ESTIMATED THAT THE ACTUAL PRICE EFFECT ON THE MARKET AND ON THE BUDGET OF THE FIRST OF THESE 1979 ADJUSTMENTS
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WOULD AMOUNT TO LE 49 MILLION IN 1979. THE ACTUAL EFFECT IN 1979 OF THE PRICE CHANGES FROM THE SECOND TRANCHE OF ADJUSTMENTS IS ESTIMATED AT LE 20 MILLION. OF COURSE THE FULL IMPACT OF THESE ADJUSTMENTS, OR LE 150 MILLION, WOULD BE FELT IN 1980 AND SUBSEQUENT YEARS. EL SAYEH STATED THAT THESE PRICE ADJUSTMENTS HAVE ALREADY BEEN AGREED TO WITHIN THE CABINET AND WILL BE ACCEPTABLE TO IMF AS THE BASIS OF AN EXTENDED FUND FACILITY.

4. THE ONLY OTHER ISSUE WHICH HAD BEEN OPEN, ACCORDING TO EL SAYEH, WAS WHETHER THE EXISTING OFFICIAL EXCHANGE RATE WOULD BE RETAINED FOR USE WITH NON-MEMBER PAYMENTS AGREEMENT COUNTRIES. ACCORDING TO EL SAYEH, IMF HAS NOW ACCEPTED MAINTENANCE OF EXISTING OFFICIAL EXCHANGE RATE FOR THESE TRANSACTIONS, WITH ALL OTHER TRANSACTIONS SHIFTING TO PARALLEL RATE. EL SAYEH SAID A SIDE ADVANTAGE OF THIS UNDERSTANDING IS THAT MAINTENANCE OF EXISTING OFFICIAL EXCHANGE RATE WILL MEAN THAT GOVERNMENT WILL NOT NEED TO SEEK PEOPLES ASSEMBLY APPROVAL FOR ESTABLISHMENT OF A NEW UNITARY RATE FOR ALL TRANSACTIONS.

5. ON BASIS ABOVE, EL SAYEH FEELS CONFIDENT EFF WILL BE

AGREED UPON. IMF TEAM RETURNS MAY 17 AND SHAALAN NOW IS SCHEDULED TO BE IN CAIRO ON MAY 23, HOPEFULLY TO FINISH OFF ALL NEGOTIATIONS.

6. IBRD CONSULTATIVE GROUP: TURNING TO IBRD CG MEETING, EL SAYEH SAID THAT IBRD'S PAIJMANS HAD EXPRESSED FOUR MAJOR ISSUES DURING HIS RECENT VISIT:

- A. FACT THAT IMF AGREEMENT NOT YET READY
- B. FACT THAT GOE POLICY PAPER HAD NOT YET BEEN PREPARED

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- C. FACT THAT IBRD WAS NOT SURE WHETHER DEBATES AND ACTIONS ON PRICES IN PEOPLES ASSEMBLY AND CHANGE OF CABINET DID NOT SIGNIFY A CHANGE IN GOVERNMENT POLICY
- D. FACT THAT NO REAL DISCUSSIONS HAVE YET BEEN HELD WITH GODE AND THAT GOE WOULD BE GOING TO CG MEETING FACING A SERIOUS B/P PROBLEM FOR 1978 WITH NO ASSURANCE THE GAP COULD BE FILLED.

7. ON FIRST POINT, EL SAYEH NOW SAYS HE AND IMF HAVE BOTH REASSURED PAIJMANS THAT AGREEMENT WILL BE REACHED ON AN EEF PRIOR TO CG MEETING. ON SECOND POINT, FOUAD HUSSEIN HAS ALREADY DRAFTED THE POLICY PAPER WHICH

IS NOW UNDER REVIEW BUT WHICH, PER EL SAYEH, IS BASICALLY SATISFACTORY TO IBRD. ON THIRD POINT, EL SAYEH CLAIMS HE REASSURED PAIJMANS THAT PEOPLES ASSEMBLY DEBATE WAS PRIMARILY ONE ABOUT THE SUPPLY SITUATION AND THE EFFECT THIS WAS HAVING ON PRICES OF SUCH ITEMS AS FRUITS AND VEGETABLES, BUT WAS NOT AN ATTACK ON THE ECONOMIC CONFIDENTIAL

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GROUP AND ITS POLICIES. AS FAR AS THE NEW CABINET IS CONCERNED, WHILE IT IS EVIDENTLY DISAPPOINTING THAT DR. KAISSOUNI HAS NOT BEEN RETAINED, IT SHOULD ALSO BE EVIDENT THAT THE BASIC POLICIES REPRESENTED BY DR. KAISSOUNI AND THE ECONOMIC GROUP WILL BE RETAINED.

8. GODE: AS TO GODE, EL SAYEH IS AWARE THIS IS A PROBLEM. GODE HAS NOT WANTED TO APPROACH GODE WITH SPECIFIC REQUESTS FOR B/P ASSISTANCE UNTIL IMF AGREEMENT HAD BEEN REACHED AND A MORE DEFINITIVE ESTIMATE OF THE B/P GAP IS WORKED OUT WITH IMF. EL SAYEH IS AWARE THAT GODE DESIRES TO SHIFT TO PROJECT FINANCING, BUT HE NOTED THAT THE TERMS OF GODE ASSISTANCE (SEVEN YEAR REPAYMENT) IS CLEARLY MORE APPROPRIATE FOR B/P THAN FOR INVESTMENT FINANCING. HE SEEMED TO FEEL REASONABLY CONFIDENT THAT ONCE THE GODE HAD WORKED OUT ITS CASE WITH IMF, THAT GODE LEADERSHIP WILL BE MORE RESPONSIVE ON EITHER CASH OR COMMODITY IMPORT FINANCING. AMBASSADOR NOTED HE HAD RECENTLY DISCUSSED WITH VP MUBARAK DESIRABILITY OF GODE ENGAGING IN SENIOR LEVEL TALKS WITH SAUDIS AND OTHER GODE MEMBERS IN FURTHER GODE FUNDING. IN ANY EVENT, EL SAYEH SAID THAT AS SOON AS THE IMF AGREEMENT IS REACHED, A MINISTERIAL LEVEL DELEGATION WILL BE SENT TO DISCUSS THE MATTER WITH GODE LEADERSHIP AND WITH LEADERSHIP IN THE MEMBER STATES. IN THE MEANTIME, HE IS URGING THE PRESIDENT TO SEND A MESSAGE TO THE MEMBERS NOTING THAT THIS MINISTERIAL GROUP WILL BE COMING TOWARDS THE END OF THE MONTH, AND URGING GODE MEMBER STATES TO GIVE THE MISSION SERIOUS ATTENTION. EL SAYEH PROMISED TO LET US KNOW JUST WHAT WOULD BE THE COMPOSITION OF THE MISSION AND ITS SCHEDULE WHEN THAT IS DETERMINED.

9. ON THE BASIS OF THE ABOVE, EL SAYEH SAID HE FELT THAT CONFIDENTIAL

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PAIJMANS HAD BEEN CONVINCED THAT IT IS DESIRABLE TO GO AHEAD WITH THE MEETING ON SCHEDULE.

10. IN RESPONSE TO A QUESTION AS TO WHO WOULD BE ON THE DELEGATION TO DISCUSS AGRICULTURE, INDUSTRY AND TRANSPORTATION, EL SAYEH SAID THAT IT IS NOW FIRMLY DECIDED THAT MINISTER OF INDUSTRY HILAL (AND LARGE MININDUSTRY TEAM) AND MINISTER OF COMMUNICATIONS AND TRANSPORT NAIN ABU TALEB WOULD TAKE PART IN THE CG MEETING. A DECISION HAS NOT YET BEEN TAKEN ON WHO SHOULD HANDLE AGRICULTURE, SINCE THE SECTOR IS NOW BIFURCATED UNDER THREE DIFFERENT MINISTERS. EL SAYEH SUGGESTED THAT PERHAPS MINISTER OF PLANNING ABDEL MEGUID COULD COVER DISCUSSIONS OF THIS SECTOR.

11. IN SUMMARY, GOE SEEMS CONFIDENT THAT IMF EFF AGREEMENT CAN BE REACHED SOON, THAT THIS WILL LAY BASIS FOR FRUITFUL DISCUSSIONS WITH GODE, AND THAT CG MEETING WILL TAKE PLACE AS SCHEDULED ON JUNE 14-16. EILTS

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